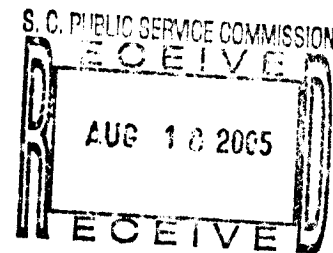


175229

August 17, 2005

VIA UPS EXPRESS

Mr. Charles Terreni
Chief Clerk Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29210



Re: Docket No. 2005-125-G Notice of Election of Piedmont Natural Gas Company, Inc. for Application of the Natural Gas Rate Stabilization Act to its Rates and Charges and Notice of Filing of Quarterly Monitoring Report and Proposed Rate Changes

Dear Mr. Terreni:

Pursuant to 26 S.C. Code Ann. Regs. 103-869(C)(Supp.2004) and the June 23, 2005 Docketing Department letter establishing dates for prefiled testimony, enclosed please find an original and 26 copies of the *Testimony and Exhibit of Bill R. Morris on Behalf of Piedmont Natural Gas Company, Inc.* in the docket shown above. Please accept the original and 25 copies for filing and return the additional "file-stamped" copy in the enclosed self-addressed stamped envelope.

Thank you for your assistance with this matter. If you have any questions about this filing you may reach me at the number shown above.

Sincerely,


James H. Jeffries

JHJ/bao

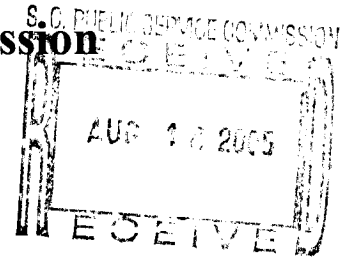
Enclosures

c: Mr. Benjamin P. Mustian, ORS (5 copies) via UPS Express
Mr. Scott Elliott, SCEUC via UPS Express
Mr. Bill Morris
Mr. David Carpenter

*OK postmarked
OK DB Duke*

**Before The
South Carolina Public Service Commission**

Docket No. 2005-125-G



**Direct Testimony and Exhibit
of
Bill R. Morris
On Behalf Of
Piedmont Natural Gas Company, Inc.**



August 17, 2005

1 **Q. Please state your name and business address.**

2 A. My name is Bill R. Morris, and my business address is 1915 Rexford Road, Charlotte, North
3 Carolina.

4 **Q. By whom and in what capacity are you employed?**

5 A. I am employed by Piedmont Natural Gas Company ("Piedmont" or "Company") as Director
6 of Corporate Planning and Development Services.

7 **Q. By whom were you employed prior to being employed by Piedmont?**

8 A. I was employed by Nashville Gas Company ("Nashville Gas") as Assistant Vice President
9 of Rates prior to my transfer to Piedmont in February 1986. Prior to my employment by
10 Nashville Gas Company, I was employed by the Tennessee Public Service Commission
11 ("TPSC") as a Financial Analyst from August 1974 through September 1981.

12 **Q. Briefly describe your educational background.**

13 A. I received a Bachelor of Science degree in accounting in 1974 from Austin Peay State
14 University. In 1979 I became a Certified Public Accountant in the state of Tennessee.

15 **Q. Have you previously offered testimony in any regulatory proceedings?**

1 A. Yes. I have testified before this Commission, the North Carolina Utilities Commission and
2 the Tennessee Regulatory Authority. I have also entered testimony before the Federal
3 Energy Regulatory Commission (FERC).

4 **Q. Are you a member of any professional associations?**

5 A. Yes, I am a member of the American Institute of Certified Public Accountants, the
6 Tennessee Society of Certified Public Accountants and the North Carolina Association of
7 Certified Public Accountants.

8 **Q. What is the purpose of your testimony in this case?**

9 A. My testimony is filed for the purpose of providing the Commission with the information
10 necessary to comply with Sections 58-5-410 and 58-5-420 of the South Carolina Natural Gas
11 Rate Stabilization Act.

12 **Q. Could you explain?**

13 A. Yes. Piedmont has previously filed an election in this docket to have the terms of the South
14 Carolina Natural Gas Rate Stabilization Act ("Act") applied to its rates and charges for natural
15 gas distribution service. Following such election, Section 58-5-410 of the Act requires that the
16 Commission:

17 proceed to make the findings and establish the ongoing procedures required for
18 adjustments in base rates to be made under this article. In carrying out the procedures
19 established by this article with respect to such an election, the commission shall rely
20 upon and utilize the approved rates, charges, revenues, expenses, capital structure,
21 returns, and other matters established in the public utilities most recent general rate
22 proceeding pursuant to Section 58-240.

1 Section 58-5-420 then provides that in issuing its order pursuant to Section 58-5-410, the
2 Commission must specifically state a number of rate base, revenue and expense items
3 established in the Company's last general rate case and also specify a 100 basis point range for
4 the Company's cost of equity the center point of which is the approved cost of common equity
5 established in the last general rate proceeding. My testimony provides information to the
6 Commission sufficient to allow them to make these findings.

7 **Q. Do you have any exhibits supporting your testimony?**

8 A. Yes. Exhibit ____ (BRM-1) attached hereto and incorporated herein by reference sets forth
9 the information required by Sections 58-5-410 and 58-5-420 of the Act.

10 **Q. Was this exhibit prepared by you?**

11 A. Yes, it was.

12 **Q. What is shown on Exhibit ____ (BRM-1)?**

13 A. Exhibit ____ (BRM-1) reflects the various components of revenue, expense, rate base,
14 capital structure, cost of capital and return established by the Commission in Piedmont's
15 last general rate proceeding in Docket No. 2002-63-G. These figures form the baseline for
16 implementation of the provisions of the Rate Stabilization Act to Piedmont's rates and
17 charges.

18 **Q. Where were these numbers derived?**

19 A. From the Commission's Order No. 2002-761 issued on November 1, 2002.

1 **Q. Are these figures in dispute?**

2 A. Not to my knowledge. The Company recently provided the Office of Regulatory Staff
3 (“ORS”) with a schedule showing the figures reflected on Exhibit ____ (BRM-1) but due to
4 the press of other business (including an ongoing general rate proceeding in North
5 Carolina) we have not yet had the opportunity to get back with ORS to determine if they
6 have any concerns. Considering the source of the figures, I do not believe that it is likely
7 that they will have material concerns.

8 **Q. In addition to the figures reflected on Exhibit ____ (BRM-1), the Commission is**
9 **required to set a range of the cost of equity based upon the cost of equity approved in**
10 **the Company’s last general rate proceeding. Have you calculated that range?**

11 A. Yes. Based upon the Company’s approved cost of equity of 12.6% established in the last
12 general rate proceeding before this Commission, the statutory range specified by Section
13 58-5-420 would be 12.1% -- 13.1%.

14 **Q. Do you believe this range is subject to dispute?**

15 A. No. The statute anticipates a \pm 50 basis point range with the midpoint being the approved
16 cost of equity established in the most recent general rate case. A range of 12.1% -- 13.1%
17 reflects that methodology when applied to Piedmont.

18 **Q. Do you have anything further to add to your testimony?**

19 A. Not at this time.

EXHIBIT __ (BRM-1)

Piedmont Natural Gas
Net Operating Income and Rate of Return
For The Twelve Months Ended January 31, 2002
Docket No. 2002-63-G

	As Adopted In Order No. <u>2002-671</u>	Adjustments For Approved <u>Revenue Increase</u>	After Adjustments For Revenue <u>Increase</u>
Operating Revenues			
Sale of Gas	140,137,654	8,079,319	148,216,973
Other Operating Revenues	530,164	301,837	832,001
	-----	-----	-----
Total Operating Revenue	<u>140,667,818</u>	<u>8,381,156</u>	<u>149,048,974</u>
Operating Expenses			
Cost of Gas	80,206,178		80,206,178
Other Operation & Maintenance	26,625,923	36,238	26,662,161
Depreciation	9,960,789		9,960,789
General Taxes	5,837,710	37,363	5,875,073
State Income Taxes	602,523	415,378	1,017,901
Federal Income Taxes	3,983,426	2,762,262	6,745,688
Amort. of ITC	(91,464)	0	(91,464)
	-----	-----	-----
Total Operating Expenses	<u>127,125,085</u>	<u>3,251,242</u>	<u>130,376,327</u>
Net Operating Income	<u>13,542,733</u>	<u>5,129,915</u>	<u>18,672,648</u>
Interest on Customer Deposits	(169,712)	0	(169,712)
Amortization of Debt Redemption Premium	0	0	0
AFDUC	584,230	0	584,230
Customer Growth	34,275	13,288	47,563
	-----	-----	-----
Net Operating Income For Return	<u>13,991,526</u>	<u>5,143,102</u>	<u>19,134,628</u>

	As Adopted In Order No. <u>2002-671</u>	Adjustments For Approved <u>Revenue Increase</u>	After Adjustments For Revenue <u>Increase</u>
Original Cost Rate Base			
Plant in Service	286,567,874		286,567,874
Accumulated Depreciation	(89,118,633)		(89,118,633)
	-----	-----	-----
Net Plant in Service	<u>197,449,241</u>	<u>0</u>	<u>197,449,241</u>
Add:			
Construction Work in Progress	5,511,832		5,511,832
Materials and Supplies	13,443,419		13,443,419
Cash Working Capital	1,796,384		1,796,384
Deduct:			
Customer Advances for Construction	3,599		3,599
Customer Deposits	2,136,658		2,136,658
Accumulated Deferred Income Taxes	31,654,758		31,654,758
Unclaimed Funds	321,899		321,899
	-----	-----	-----
Total Original Cost Rate Base	<u>184,083,962</u>	<u>0</u>	<u>184,083,962</u>
Return on rate base	<u>7.60%</u>		<u>10.39%</u>

Piedmont Natural Gas
Net Operating Income and Rate of Return
For The Twelve Months Ended January 31, 2002
Docket No. 2002-63-G

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Accounting and Pro Forma Adjustments	Capitalization	Ratio %	Cost Net Investment	Embedded Cost %	Overall Cost Rate %	Net Operating Income	Cost Net Investment
		Per Books Capitalization							
1. Long-Term Debt	503,037,860	0	503,037,860	45.10%	83,025,590	7.71%	3.48%	6,401,273	83,025,590
2. Common Equity	612,295,402	0	612,295,402	54.90%	101,058,372	7.51%	4.12%	7,590,253	101,058,372
3. Total	1,115,333,262	0	1,115,333,262	100.00%	184,083,962		7.60%	13,991,526	184,083,962

(10) (11) (12)
After Adjustments for Revenue Increase

	Embedded Cost %	Overall Cost Rate %	Net Operating Income
1. Long-Term Debt	7.71%	3.48%	6,401,273
2. Common Equity	12.60%	6.92%	12,733,355
3. Total		10.39%	19,134,628